

Message Text

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12

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NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-14 USIA-12 T-03

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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 6080

C O N F I D E N T I A L JAKARTA 3342

E. O. 11652: GDS

TAGS: EFIN, ID

SUBJ: INDONESIAN GOVERNMENT BORROWING; IMF STANDBY;
PERTAMINA' S LARGE PROJECTS

REF: A) JAKARTA 3343 B) JAKARTA 3294 C) JAKARTA 3165; D)
JAKARTA 3191; E) JAKARTA 2163;

1. REFERENCES REPORT DEVELOPMENTS, PARTICULARLY RELATING TO THOSE INVOLVING OUR ATTEMPTS TO BE HELPFUL BACK STAGE, IN UNFOLDING DRAMA OF CONFRONTATION BETWEEN SOMETIMES FREE-WHEELING MANAGEMENT OF PERTAMINA WITH ITS LARGE CAPITAL REQUIRE MENTS AND MORE BROADLY CONCERNED DEVELOPMENT- AND- CON-CESSIONAL- AID ORIENTED TECHNOCRATS.

2. AS OUR REPORTING HAS INDICATED WE BELIEVE THERE HAVE BEEN QUESTIONABLE PRACTICES IN PERTAMINA' S PAST HANDLING OF ITS FINANCES (INCLUDING THINGS DONE BY PERTAMINA FOR PRESIDENT SUHARTO, THE MILITARY AND POSSIBLY OTHER SECTORS OF THE INDONESIAN GOVERNMENT) AS WELL AS OMISSIONS AND FAILURES IN COORDINATION ON PART OF TECHNOCRATS. IN OUR VIEW, HOWEVER, IMPORTANT THING WAS TO INDUCE MORE COOPERATION AND COORDINATION BETWEEN THOSE WHO DEAL WITH CON-CESSIONAL AND THOSE WHO DEAL WITH SHORT TERM COMMERCIAL FINANCING ON BEHALF OF GOVERNMENT. WE FELT THERE WAS
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REAL NEED FOR SUCH SIDE TO BE MORE COOPERATIVE AND COMMUNICATIVE WITH THE OTHER AND THAT FOR COMMON GOOD EFFORT SHOULD BE MADE TO OVERCOME ANTAGONISMS OF PAST IN INTEREST OF CONSTRUCTIVE COOPERATION IN FUTURE.

3. FOR WHATEVER REASON SUHARTO SEEMS TO HAVE ENCOURAGED BOTH SIDES OF THIS EQUATION TO BELIEVE THEY HAVE HIS FULL BACKING AND THEIR INCLINATIONS TO COMPROMISE ARE, THEREFORE, PERHAPS LESS THAN THEY MIGHT OTHERWISE BE. WE KNOW THERE IS SOME MUTTERING AMONG THE MILITARY AGAINST THE TECHNOCRATS AND THEIR CRITICISM OF PERTAMINA; WE KNOW THERE ARE SOME AMONG THE MILITARY WHO SHARE THE TECHNOCRATS' AVERSION TO PERTAMINA'S POLICIES OF LAVISH FINANCING FOR PRESTIGE PROJECTS. BUT IN GENERAL WE HAVE BEEN BEARISH ON TECHNOCRATS' CHANCES IN ANY SHOWDOWN WHICH WOULD CAST DISCREDIT ON GENERAL IBNU SUTOWO AS MEMBER OF MILITARY HIERARCHY.

4. NEVERTHELESS, OUR RECENT CONVERSATIONS WITH MINISTER OF FINANCE WARDHANA AND MINISTER OF DEVELOPMENT WIDJOJO (REF B) SEEMED TO REFLECT THEIR STRONG DETERMINATION TO STAND THEIR GROUND, SEE THIS CONFRONTATION THROUGH AND ESTABLISH THEIR CONTROLS OVER INDONESIAN GOVERNMENT (INCLUDING PERTAMINA) BORROWING BY SEEKING PRESIDENT'S BACKING. WE WOULD HAVE THOUGHT THAT SOMEWHAT MORE COMPROMISING APPROACH TO PERTAMINA ON THEIR PART WOULD HAVE BEEN ADVISABLE TO FOLLOW- UP ON WHAT APPEARED CONFLICTORY MOOD OF GENERAL IBNU IN RECENT WEEKS. BUT IN FINAL ANALYSIS, WE RECOGNIZE PROBLEM IS THEIRS AND THEY MUST SETTLE IT AND WE PRESENTLY SEE LITTLE IF ANYTHING WE CAN DO EXCEPT TO WAIT THEIR WORKING IT OUT.

5. OUR IMPRESSION NOW IS THAT DECISION ON SUCH MATTERS AS IMF STANDBY CEILING, SUSPENSION OF \$50 MILLION PROGRAM LOAN, GOVERNMENT APPROVAL OF EXIM BANK LOAN APPLICATIONS AND OTHER, RELATED MATTERS WILL AWAIT THE RESOLUTION OF QUESTION OF WHO CONTROLS PERTAMINA FINANCIAL DECISIONS. WHILE NO PREDICTIONS RE LIKELY RESOLUTION CAN BE MADE WITH CONFIDENCE, WE HOPE SUHARTO WILL DEVISE SOME RESOLUTION WHICH WILL ENABLE HIM TO CONTINUE CALL UPON VALUABLE SERVICES AND TALENTS OF BOTH IBNU AND TECHNOCRATS. GALBRAITH
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